Grant Thornton

Accountants and Business Advisors

February 14, 2005

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Via e-mail: (comments@pcaobus.org) and Hand Delivery

Re: PCAOB Rulemaking Docket Matter No. 017, *Proposed Ethics and Independence Rules Concerning Independence, Tax Services and Contingent Fees* (PCAOB Release No. 2004-015).

Dear Board Members and Staff,

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("Board" or "PCAOB") *Proposed Ethics and Independence Rules Concerning Independence, Tax Services and Contingent Fees* ("Proposed Rules"). We support the Board's commitment to promote the ethics and independence of registered public accounting firms that audit and review financial statements of U.S. public companies ("registered firms").

We issued a press release supporting the Proposed Rules on December 15, 2004 (the day after the Proposed Rules were released; a copy of our press release is attached hereto). In this comment letter, we address certain provisions in sections 3502, 3521, 3522, and 3523 of the Proposed Rules to assist the PCAOB in establishing a principles-based framework to auditor independence. Please note that page citation references herein are to the PCAOB Release No. 2004-015 (December 14, 2004) ("Release 2004-015").

Grant Thornton Summary Points

- The Board, through Proposed Rule 3502, appropriately seeks to evaluate the types of circumstances for which associated persons with registered firms may be disciplined for causing a violation of the Sarbanes-Oxley Act. We believe that the "knew or should have known" negligence standard articulated by the Proposed Rule is an effective standard to implement. However, Grant Thornton recommends that in finalizing the Proposed Rule, the Board expressly provide an exception from violation for actions or omissions that occur notwithstanding reasonable and diligent efforts made in good faith undertaken by an associated person to satisfy applicable standards, rules and laws, including the Sarbanes-Oxley Act.

- Grant Thornton embraces Proposed Rule 3521's prohibition of contingent fees on engagements between public company audit clients and registered firms. We recommend extending the prohibition in Proposed Rule 3521 to include value-added fee arrangements.

1900 M Street NW, Suite 300
Washington, DC 20036
T 202.296.7800
F 202.833.9165
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

- Grant Thornton fully supports Proposed Rule 3522's effort to address the threat posed to investor confidence, integrity in the public accounting system, and auditor independence when a registered firm provides tax services to a public company audit client based on an aggressive interpretation of the tax law. However, to accomplish these objectives without unintentionally curtailing the ability of taxpayers to be properly advised on tax matters, we recommend that the Board adopt independence standards that focus on whether the tax transactions or strategies in issue involve reportable transactions, as that term is applied in the Internal Revenue Code.

- Grant Thornton appreciates and supports Proposed Rule 3523's prohibition on tax services being provided by registered firms to persons in a financial reporting oversight role at a public company audit client. It is critical for the registered firm and these individuals to avoid even the appearance of mutuality of interest. In furtherance of the principle underlying Proposed Rule 3523, however, we recommend strengthening the reach of Proposed Rule 3523 to prohibit tax services to all members of a board of directors, which would include audit committee members.

The following is a detailed discussion of our summary points.

Responsibility Not to Cause Violations – Proposed Rule 3502

Integrity is a core value at Grant Thornton and, we are convinced, it is a cornerstone for building and maintaining investor confidence in the public company audit system. It is vital that registered firms foster a culture of ethical expectation and demand that professionals act in accordance with applicable ethical standards, rules, and laws to promote an environment of the highest integrity.

Grant Thornton agrees with the premise of Proposed Rule 3502 that a registered professional services firm, in whatever form (*e.g.,* general partnership, LLP, or professional corporation), can act only through the natural persons who comprise the firm. It makes sense and is entirely appropriate, we think, that the Board be authorized to discipline a person associated with a firm where the associated person knew or should have known that his or her actions or omissions would cause the firm to violate applicable rules, standards or laws. We view the "knew or should have known" negligence standard of Proposed Rule 3502 as an effective standard to implement. However, we are concerned that Proposed Rule 3502 does not expressly provide that actions or omissions that occur notwithstanding reasonable and diligent efforts made in good faith to adhere to applicable rules, standards and laws are not considered violations of Proposed Rule 3502. We believe Proposed Rule 3502 needs to take into account such efforts made by associated persons to interpret and apply PCAOB standards, rules, and related laws.

The Board has identified "state of mind" (p. 18) as a fundamental measure in determining whether an associated person negligently caused a firm to violate PCAOB rules, standards, or related laws, and we agree with that principle. To that end, evaluation of specific facts and circumstances seems necessary to the fair application of Proposed Rule 3502. For example, did an associated person act alone in a matter that resulted in a violation, or seek

input and advice on independence issues from qualified professionals within the registered firm? Did the person follow such advice or deviate in some way (and if so, why)? If the person acted without seeking assistance, what efforts were undertaken to ensure that independence would be maintained? What policies and procedures exist at the registered firm to help ensure independence is maintained, and did the person follow such policies and procedures? The Board underscores the importance of associated persons acting with reasonable and diligent efforts made in good faith, explaining that under Proposed Rule 3502, an associated individual's ethical obligations include "not merely to refrain from knowingly causing a violation but also to act with sufficient care to avoid negligently causing a violation" (p. 18). We recommend that Proposed Rule 3502 expressly provide an exception from violation for reasonable and diligent efforts made in good faith undertaken by an associated person, even if an action or omission is in error and causes the registered firm to not be independent.

The Board inquires whether, under Proposed Rule 3502, if a registered firm knowingly or recklessly engaged in misconduct, it would be appropriate to find a violation by an associated person who only negligently contributed to the violation. If it is a *given* that an associated person negligently contributed to the violation of Proposed Rule 3502, we think that person may be subject to appropriate discipline for such negligent action. However, we express concern if the question being posed is whether an associated person who contributed only negligently to a violation should be held subject to more severe discipline than warranted by negligence, simply because the registered firm itself is determined to have "knowingly or recklessly" engaged in misconduct. In citing to Section 105(c)(5) of the Sarbanes-Oxley Act, the Board underscores that application of higher threshold sanctions is appropriate when violations occur as a result of conduct that is intentional, knowing, or reckless, or where negligence is a repeated matter (p. 18, fn. 40). The correlative implication is that lesser misconduct should not carry the same sanction. We encourage the Board to clarify this question under Proposed Rule 3502 and explain its rationale for further comment if, in fact, the Board is considering attributing a higher threshold violation by the firm to an associated person who committed only a lesser threshold violation.

Ethics and Independence – Contingent Fees – Proposed Rule 3521

Grant Thornton supports Proposed Rule 3521's prohibition on contingent fee arrangements involving public company audit clients. We agree that such fee arrangements are incompatible with a public auditor's independence and must be precluded without exception. We support the Board's clarification that contingent fee arrangements are precluded whether made between a registered firm and a client directly, or whether the fee arrangement is made indirectly with the client, for example through an arrangement between the registered firm's subsidiaries and/or other affiliates and the client. Allowing contingent fees between subsidiaries and affiliates of the registered firm and the client would promote form over substance and violate the spirit and intention of the prohibition.

Although not specifically addressed in the Proposed Rules, Grant Thornton also is concerned that "value added" fee arrangements could be potentially used in lieu of contingent fee arrangements. We recommend that Proposed Rule 3521 be amended to

incorporate an identical prohibition on the use of value added fee arrangements involving public company audit clients. Value added fee arrangements are traditionally viewed as fee arrangements where the terms of engagement provide that any fee amount to be paid to the auditor above an agreed, specified fee amount is left to the client's unfettered discretion at the end of the engagement. In structuring a value added fee arrangement, the auditor's hope is that the client will determine that the auditor provided services of greater value than the specified fee and will make an additional payment. The client obtains the benefit of not making a payment if it concludes that the value of the services does not warrant additional payment. Any fee payment above the specified fee is thus considered to be made voluntarily by the client, and therefore not an independence-impairing contingent fee.

Value added fee arrangements are not precluded by either the SEC or AICPA rules as presently written. But such fee arrangements are cause for strong concern for independence issues. In a May 21, 2004 letter to the Professional Ethics Executive Committee of the AICPA, Donald Nicolaisen, the SEC's Chief Accountant, emphasized the tension created in the auditor-client relationship by value added fees; the auditor seeking to encourage a large fee, and the client controlling leverage to not pay a fee if dissatisfied with the engagement. He also cautioned about "wink and a nod" arrangements, where the additional fee is in substance tied to a specific service benefit. Mr. Nicolaisen explained in his letter (and Grant Thornton agrees), that value added fees "could have an adverse affect on a reasonable investor's conclusion that the accounting firm is capable of exercising objective and impartial judgment."

The SEC has thus cautioned registered firms that the SEC staff will closely review facts and circumstances surrounding value added fee arrangements to determine whether a fee labeled "value added" is in substance a contingent fee. However, to best ensure integrity in the audits of public companies in light of the clear concerns with value added fees, Grant Thornton believes that regulatory emphasis should be on prohibiting such fees arrangements. We recommend that the Board include an express prohibition on value added fees in Proposed Rule 3521, consistent with the intent that the term "contingent fee" should be understood broadly to include the aggregate amount of compensation for a service (p. 22). In demonstration of our thought leadership on the matter, Grant Thornton no longer enters into value added fee arrangements with public company audit clients.

We presume that cases may arise where registered firms have proper contingent or value added fee arrangements with public companies for which they are not auditors when the fee arrangement is entered into to, but subsequently are considered for the performance of audit services. In order not to cause unintended independence impairment under the Proposed Rules to the detriment of public companies and investors, we recommend that the Board clarify in the final rule that independence is maintained as long as any unconcluded portion of a contingent (or value added) fee arrangement is terminated or otherwise converted to a fixed-fee or time and materials arrangement prior to the beginning of the period of engagement for audit and professional services.

Aggressive Tax Positions – Proposed Rule 3522

Our focus in this comment is on Proposed Rule 3522(c) ("aggressive tax positions"). The Proposed Rule provides that a registered firm cannot be independent from its public company audit client if it provides "any service" related to planning or opining on the tax consequences of a transaction that has a "significant purpose" of tax avoidance, and is not at least more likely than not to prevail, if the transaction also was "initially recommended" by the registered firm (or an affiliate) or another tax advisor.

We understand that with Proposed Rule 3522, the Board is targeting independence issues involving abusive tax strategies and transactions and the "sale" of such strategies and transactions by the registered firm to its public company audit client (p. 35). We recognize that abusive tax practices have the effect of undermining the public's confidence in tax advisors, their firms, and the profession. In that regard, we appreciate that Proposed Rule 3522(c) "is intended to provide registered public accounting firms more clarity and predictability as to the types of transactions that impair independence" (p. 33). Grant Thornton supports that goal. In fact, we do not market listed transactions or similar questionable tax shelter products or practices, nor do we engage in tax services under conditions of confidentiality with regard to any client, whether or not the client is a publicly traded audit client. However, we are concerned that Proposed Rule 3522(c) is overly broad as drafted. By its terms, we believe Proposed Rule 3522(c) may cause independence impairment for matters not intended by the Board and have an adverse impact on public company taxpayers, particularly middle market/mid-cap taxpayers. Similarly, as addressed below, we also do not think Proposed Rule 3522(c) as drafted will accomplish the Board's goal of increased clarity and predictability for the registered firm in applying independence principles in tax matters.

Tying the definition of an aggressive tax position to a transaction that has a "significant purpose" of "tax avoidance" is one difficulty with the Proposed Rule. Those terms do not frame a distinct meaning or standard within federal tax law such that they identify a sufficiently clear or understood category of improper, abusive tax transactions. Not every transaction that has a significant purpose of tax avoidance is an inappropriate transaction. To the contrary, many appropriate business and tax planning strategies have no connection at all to tax shelter abuses, yet have at their root a purpose to lessen, eliminate, or defer tax liability.

Moreover, the view of the Internal Revenue Service ("IRS") as to what is an abusive tax shelter, sham transaction, or other improper tax strategy is decidedly important, but not the definitive measure. Cases are regularly litigated over such issues, and court decisions highlight that complex tax planning undertaken with a significant intent to reduce or avoid taxes is appropriate in the proper context. *See, e.g., UPS of Am. V. Comm'r*, 254 F.3d 1014, 1020 (11th Cir. 2001)("The transaction under challenge here simply altered the form of an existing, bona fide business, and this case therefore falls in with those that find an adequate business purpose to neutralize any tax-avoidance motive."); *TIFD III-E Inc. v. United States*, 342 F. Supp. 2d 94, 108 (D. Conn. 2004)("There is no dispute that the Castle Harbour transaction created significant tax savings for [the taxpayer]. The critical question, however,

is whether the transaction had sufficient economic substance to justify recognizing it for tax purposes."). Congressional testimony by the Commissioner of Internal Revenue underscores the point that tax advice intended to minimize tax burden is not necessarily improper tax avoidance or evasion. On November 20, 2003, while testifying before a Senate Committee specifically on tax shelter matters, the Commissioner explained that "[t]ax laws are complex and taxpayers *are permitted to take aggressive positions within the bounds of the law.*" Statement of Honorable Mark Everson, Senate Committee on Governmental Affairs, "U.S. Tax Shelter Industry: The Role of Accountants, Lawyers and Financial Professionals" (November 20, 2003) (emphasis added).

Considering the matter from an independence perspective, we believe Proposed Rule 3522(c) must be refocused in order to achieve the Board's goal of clearly and predictably identifying transactions that have a high risk profile of being abusive tax transactions. We believe the Board may achieve the high degree of predictability and clarity it seeks for taxpayers, tax advisors and registered firms by looking to existing provisions of the Internal Revenue Code ("Code") requiring taxpayers to disclose on their federal tax returns, transactions known as "reportable transactions." Code section 6011, regulations thereunder, and other administrative authority define reportable transactions as including all listed transactions, and certain other transactions that the IRS has earmarked for evaluation as potentially improper tax avoidance transactions based on specific risk factors. The Code thus has a clear mechanism for defining precisely the type of aggressive tax positions the Board seeks to frame within Proposed Rule 3522(c). Such transactions, once identified, may readily be subjected to the independence principles the Board understandably seeks to implement. Accordingly, as we discuss below, we recommend that the Board apply the "more likely than not" threshold standard in Proposed Rule 3522(c) as drafted *only* to "reportable transactions." For transactions that are not reportable transactions, the Board's independence interests are appropriately protected by evaluating all such transactions under the threshold standard of "substantial authority."

As presently drafted, Proposed Rule 3522(c) applies the "more likely than not" standard to all transactions, without any filtering for transactions that do not have a high-risk, tax abuse profile. From an independence perspective, we believe this is an overly-broad use of the more likely than not standard that is likely to result in unintentional independence impairment (or an inability of public companies to be properly advised) relative to tax advice that is appropriately supported by applicable legal authority and not subject to penalty under the Code. Pursuant to rules set forth in sections 6662, 6662A and 6664 of the Code, the "more likely than not" standard is a significant standard for penalty protection, and the only standard that may apply to provide penalty protection to taxpayers in connection with the type of potentially tax-abusive transactions intended to be captured by Proposed Rule 3522(c), *i.e.*, tax shelters and reportable transactions.

For other transactions not targeted as potentially abusive, the Code provides that taxpayers may avoid the imposition of penalties by establishing that a tax position is supported by "substantial authority." "Substantial authority" is a term defined in tax law providing that authority supporting the tax treatment of a transaction is "substantial" when, under a meaningful evaluation of relevant facts and authorities, the weight of authority in favor of

the transaction's purported tax treatment is substantial in relation to contrary authority. Treas. Reg. Sec. 1.6662-4(d)(3). Such analysis contemplates the taxpayer's purpose for participating in a transaction, which is in symmetry with the Board's independence position that aggressive tax positions involving public company audit clients of registered firms may impair independence. Because the "substantial authority" standard is sufficient to support all taxpayer positions but those with the high-risk potential for tax abuse inherent in tax shelter or reportable transactions, Grant Thornton believes that distinguishing between the "more likely than not" and "substantial authority" standards for independence purposes harmonizes the relationship between the Board's independence concerns and fundamental tax principles. The result is independence framing that appropriately acknowledges the difference between permissible, routine tax planning and advice and "aggressive tax strategies and products" that a registered firm ought not plan or opine on the tax treatment for a public company audit client (p. 35).

We thus recommend that Proposed Rule 3522(c) be redrafted to provide that no independence impairment occurs with regard to tax services provided to public company audit clients by registered firms if a reportable transaction is at least "more likely than not" to be sustained on the merits if challenged by the government, or if a tax position is not a reportable transaction, it nonetheless is supported at least by substantial authority.[1]

Recent changes to the Code and to professional ethics rules and standards in tax matters further underscore the appropriateness of an independence framework based on the distinction between reportable transactions and other types of transactions. The American Jobs Creation Act (P.L. 108-357, the "Act", October 22, 2004) added a number of provisions to the Code specifically targeted at promoting the disclosure of reportable transactions (including listed transactions), and codified significant penalties imposed on taxpayers for failure to disclose such transactions (Code section 6707A). The Act also encouraged taxpayers not to engage in improper tax shelter activity by placing certain limitations on a taxpayer's ability to rely on the opinions of advisors for relief from accuracy-related penalties and imposing special accuracy-related penalties for reportable transactions. (Code sections 6662A and 6664). The Act further authorized the imposition of monetary penalties against tax practitioners and/or their firms as appropriately determined for unethical professional behavior. Finally, recent revisions to Treasury Circular 230 address tax shelter matters, including establishing opinion standards and best practices for tax advisors. (Circular 230 governs standards of practice before the IRS; the recent revisions were finalized and published on December 20, 2004, just after the release of the Board's Proposed Rules). Collectively, these recent developments in the law emphatically demand that tax advisors and taxpayers act alike with integrity in their relationship to the tax system, a

[1]In recommending that tax positions that are not reportable transactions be subject to a minimum threshold of "substantial authority" under Proposed Rule 3522(c), Grant Thornton is nevertheless advocating an independence standard that is higher than the tax return preparer standard for establishing a tax return position for an item (which requires only that a return position at least have a "realistic possibility of being sustained on its merits" under Code section 6694(a)). We support a minimum independence standard above the return preparer standard because the focus of the Board's independence concern properly is whether the registered firm is able to fairly scrutinize a transaction and understand clearly associated risk undertaken by the public company audit client, not on whether the client has taken a mere filing position on its tax return.

principle in clear harmony with the Board's goals for establishing independence in the public company audit system.

A further (but related) concern we note is Proposed Rule 3522(c)'s focus on whether a transaction was "initially recommended" by the registered firm or another tax advisor, as opposed to the public company audit client identifying the issue or being apprised of it from a non-tax advisor source. This aspect of the "aggressive tax position" definition seems likely to force taxpayers into a troubling conflict between impairing auditor independence and properly receiving tax advice from a professional tax advisor. By establishing independence impairment for tax advice initiated from a tax advisor, the Proposed Rules again misapprehend that not all tax strategies or transactions are abusive strategies or transactions, even if there is a significant purpose of reducing taxation.

The tax law is complex and its application very often is not a "black or white" matter. The Commissioner of Internal Revenue made clear in his November 20, 2003 testimony that "[t]ax professionals should assist taxpayers in navigating through this challenging landscape to determine their fair share of taxes." *Statement of Honorable Mark Everson, supra.* The tax professional's acknowledged role thus is to apply expertise to discern when strategies or transactions that have tax reduction, elimination or deferral as an objective are improper strategies or transactions, and when they are not. As a function of tax complexity, this requires a case-by-case analysis of facts, circumstances and applicable law surrounding the tax advice. Not all public company taxpayers, and certainly few middle market/mid-cap taxpayers, maintain in-house tax staff sufficient to address complex tax matters. Even where such staffs are maintained, removing the tax professional as a resource for corporate governance to avoid impairing independence is inconsistent with the critical function that outside advisors serve in the tax system, as Commissioner Everson made plain in his Senate Committee testimony. Yet, Proposed Rule 3522(c) as drafted may have the unintended impact of a typical middle market/mid-cap taxpayer being unable to preserve independence with its audit firm if any outside tax advisor initiates assistance to the taxpayer in navigating the challenging tax landscape.

Unless Proposed Rule 3522(c) is reframed to address this concern, we foresee a real possibility of unintended, significant, disruption for public companies trying properly to manage their tax obligations without the assistance of professional advisors. To implement Proposed Rule 3522(c) within its intended context, we focus on our prior recommendation that the Proposed Rule reflect the "more likely than not" and "substantial authority" standards within our suggested framework. That is, we suggest the Board provide that independence is not impaired where tax advice is initiated by the registered firm of a public company audit client or another tax advisor so long as the strategy or transaction does not involve a reportable transaction that is not at least more likely than not to be sustained if challenged or, for transactions that are not reportable transactions, are not supported by a position with substantial authority. We believe these articulated standards directly target the result desired by the Board that "a registered public accounting firm ought not to sell" an improper, abusive tax strategy or transaction to a public company audit client (p. 35), while permitting the public company audit client to receive business tax planning advice having no

connection to potential abuses that are the focus of the Board's objectives in the Proposed Rules.

Moreover, reframing Proposed Rule 3522(c) to permit proper advice by the auditor or another tax advisor will not damage or compromise investor confidence in the auditor's judgment and objectivity (p. 26). To the contrary, we believe an independence framework based on clearly understood standards, as reframed in accordance with our comments, provides predictable guidelines for advising taxpayers on proper, non-abusive tax strategies and transactions and supports the fundamental principle that taxpayers *should* be professionally advised within the bounds of the tax law. We thus believe our recommended changes to Proposed Rule 3522(c) advance the pursuit of integrity and independence in the relationship between registered firms and public company audit clients related to tax matters.

Tax Services for Officers in a Financial Reporting Oversight Role – Proposed Rule 3523

The appearance of independence is critical to public confidence in tax advisors, their firms, and the accounting profession. Grant Thornton supports Proposed Rule 3523, which provides that a registered firm is not independent of the public company audit client if during the audit and professional engagement period any tax services are provided to an officer in a financial reporting oversight role at the client. The Proposed Rule precludes tax services regardless of whether they are paid for by the public company or by such officers. Grant Thornton supports this decision; we recognize that this independence issue concerns an unacceptable mutuality of interest resulting from an improper service relationship, not which party pays for the services.

However, we do recommend that Proposed Rule 3523 be revised to preclude tax services to all members of the board of directors of the public company audit client, rather than distinguish among board members by perceived financial oversight function on the board. From an independence perspective, we believe all board members (including audit committee members, who both select the registered firm performing audit services and approve the performance of other permissible services as required by law) fundamentally serve in a financial reporting oversight role as corporate governors responsible for directing the public company. Allowing tax services to be performed for *any* board member under Proposed Rule 3523 seems inconsistent with the spirit of avoiding even the appearance of compromised independence, and may undermine public confidence in the integrity of advisors, firms and the profession. Accordingly, regardless of formal board assignment role, we believe the provision of tax services to a board member should be considered improper during the audit and professional engagement period.

We also are concerned that Proposed Rule 3523 does not reflect commonplace, business realities, such as the promotion or hiring or appointment of new personnel to serve in a financial reporting oversight role. We recommend that Proposed Rule 3523 be revised to provide transition relief with regard to persons having tax services engagements in place with the registered firm who are in a financial reporting oversight role at the public company before the registered firm becomes the auditor, or who assume that role while the registered

firm already is performing audit and professional services for the company in a period of engagement. It is a regular business occurrence that persons assume financial oversight roles from within a company by promotion or are specifically hired or appointed from outside the company to serve such a role. No registered firm can guard against such action, which typically occurs without the registered firm having advance notice. Creating independence impairment related to a corporate business matter occurring outside the knowledge of the registered firm, which cannot be practically managed in advance, seems an unintended, harsh application of the Proposed Rule.

Of course, it is paramount that registered firms address the independence issue once the financial reporting oversight role is identified; and so long as the improper services relationship terminates, we see no challenge to the integrity of the system or the public's perception as to the independence of the registered firm. Grant Thornton recommends that Proposed Rule 3523 be clarified to provide that once an individual for whom the registered firm is engaged to perform tax services assumes a financial reporting oversight role at the public company audit client, it is in the best interest of public companies and investors to permit the registered firm to resign from the tax services engagement without creating an independence impairment.

Conclusion

As a leading public accounting, tax and business advisory firm, Grant Thornton embraces the opportunity to commit publicly to principles of integrity and professional responsibility and acknowledge our obligation to act in a manner that serves the public interest and honors the public trust. In conclusion, we again commend the Board for its commitment to the development and promotion of integrity, ethics, and independence of registered public accounting firms that audit and review financial statements of U.S. public companies. Grant Thornton appreciates the opportunity to comment on these critical matters.

We would be pleased to discuss our comments with you. If you have any questions, please contact Dean Jorgensen, Partner in Charge of the National Tax Office, at (202) 861-4102 or Karin French, Managing Partner of SEC/Regulatory, at (703) 847-7533.

Very truly yours,

Grant Thornton

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News release

For immediate release
December 15, 2004

Contact: Holly Wehmeyer
Grant Thornton LLP
312.602.8434
holly.wehmeyer@gt.com

Grant Thornton supports proposed PCAOB rules on providing tax services to public audit clients

CHICAGO, Dec. 15, 2004 – Grant Thornton LLP supports the Public Company Accounting Oversight Board's (PCAOB's) proposed rules for providing tax services to public audit clients. We support their goal of upholding the ethical standard of auditor independence, which serves to foster high quality, objective audits and to promote investor confidence.

We believe that a principles-based approach should be adopted for all standards-setting areas regarding auditor independence. The current rulebook approach fosters a culture where there is more concern about the form of transactions than their substance. A principles-based framework provides greater assurance to the public that management and auditors will do the right thing. Grant Thornton began advocating this approach months before the passage of the Sarbanes-Oxley Act in 2002.

Furthermore, we support the PCAOB's decision to prohibit audit service providers from entering into contingent fee arrangements for tax services with their public company audit clients. This decision reaffirms and reinforces existing Securities and Exchange Commission (SEC) rules on contingent fees and is entirely appropriate.

Our tax professionals share high-quality ideas, solutions and positions with our clients, and ensure that every client receives the best advice possible. Our tax professionals help clients make prudent decisions about Federal, State and Local and International Taxes. We do not market questionable tax shelter products (listed transactions or those sold under a confidentiality agreement), nor do we provide tax advice that is unethical or would place our clients at risk. We support the PCAOB's decision to prohibit audit service providers from creating, selling or opining on these kinds of tax shelter products.

Grant Thornton is committed to the highest level of professional excellence and to providing outstanding independent professional business advice. We support PCAOB efforts to promote ethical behavior and auditor independence throughout the accounting industry, and we expect the proposed rules will be beneficial in restoring and supporting investor confidence. Over the course of the 60-day public comment period, we intend to thoroughly analyze the implications of the proposed rules and provide our feedback to the PCAOB.

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